

HUD Request for AAPC Guidance Regarding CPD FIFO Accounting

The Department of Housing and Urban Development (HUD) is requesting assistance from the Accounting and Auditing Policy Committee (AAPC) to address the accounting treatment for the Office of Community Planning and Development (CPD) historical formula block grant programs that used a First in First out (FIFO) disbursement method to liquidate obligations. The balances related to these historical grants are material to the Department's financial statements and part of the Office of Inspector General's (OIG) basis for disclaimed opinions since Fiscal Year (FY) 2014. Historical records do not exist to allow retroactive application or estimation of any misaligned values in the financial statements. Our CPD formula block grant system was modified to align the obligation and disbursement transactions for grants issued beginning in FY 2015 and forward on a grant specific basis.

As the historical records do not exist for pre-FY 2015 grants and they will be fully disbursed or cancelled by September 2021, HUD proposes to include language describing its FIFO and grant-specific disbursement methods for applicable fiscal years as a note disclosure in HUD financial statements. Would this be a reasonable solution to resolve pre-FY 2015 grant transaction presentation issue as the historical records are not available to re-align any obligations and disbursements?

Background: Use of the FIFO method for disbursing grant funds began as early as 1976 when the Community Development Block Grant program was established. Other programs followed the same disbursement method when they came into existence during the 1987-1990 timeframe. Our CPD formula block grant system was reconfigured to align the obligation and disbursement transactions for grants issued beginning in FY 2015 and forward on a grant specific basis. Affected programs using the FIFO disbursement method include: 1) Community Development Block Grant; 2) HOME Investment Partnerships; 3) Housing Opportunity for Persons with AIDS; and 4) Emergency Solutions Grants.

The table below, shows aggregate funding levels and grant counts along with estimated unliquidated obligations balances as of September 30, 2016 for the four mentioned formula grants.

Budget Fiscal Year	Enacted Funding Levels (in millions)	Grant Count	Estimated Unliquidated Obligation Amount (in millions)	Percent of Total Unliquidated Obligation
2010	\$6,209	2,365	\$53.8	1.46%
2011	\$5,413	2,366	\$123.2	3.36%
2012	\$4,531	2,379	\$274.2	7.48%
2013	\$4,521	2,385	\$706.8	19.27%
2014	\$4,575	2,393	\$2,510.2	68.43%
Totals	\$25,249	11,888	\$3,668.2	100.0%

Statement of Federal Financial Accounting Concepts 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, establishes two basic recognition criteria that an item must meet to be recognized in the financial statement: (1) the item meets the definition of an element of the financial statement and (2) the item is measurable. As used in the statement, the term measurable means that a monetary amount can be determined with reasonable certainty or is reasonably estimable. Due to the second criterion and non-existent historical records, HUD is unable to perform retroactive application or estimate any misaligned values in the financial statement with any reasonable certainty. Resolving the accounting treatment on this issue is important as HUD financial statements will continue to bear the FIFO impact for another three to five years.

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In summary, HUD has implemented the necessary policy and systems changes for grants issued in FY 2015 and forward. Based on the background provided and actions taken on new grants, HUD is seeking concurrence for a footnote disclosure approach, as a means to resolve the disclaimer.